2013 Half Year Financial Results

24th July 2013

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Summary

- Revenue in H1 2013 is broadly in line with H2 2012 at constant currency – consistent with the guidance given over recent months
- EBITA margins improved to 12.0% in H1 2013 compared with 11.0% in H2 2012 driven by self help initiatives in a market environment that continues to be challenging
- Good cash generation underpinning an interim dividend increase of 5.6%
- New “One Morgan” model being successfully delivered to plan with benefits coming through progressively as anticipated

2013 Half Year Group Results

Kevin Dangerfield

Revenue in H1 broadly in line with H2 2012; EBITA margin up to 12.0%; interim dividend up by 5.6%

	H1 2013	H2 2012 Restated	H1 2012 Restated
Revenue	**£486.1m**	**£474.5m**	**£533.0m**
EBITA before restructuring and one-off items	**£58.3m**	**£52.4m**	**£68.5m**
EBITA margin % before restructuring and one-off items	**12.0%**	**11.0%**	**12.9%**
EBITA after restructuring and one-off items *	**£51.6m**	**£40.5m**	**£67.2m**
EBITA margin % after restructuring and one-off items *	**10.6%**	**8.5%**	**12.6%**
PBT before amortisation	**£39.7m**	**£29.6m**	**£55.4m**
Underlying earnings per share	**10.0p**	**7.9p**	**13.8p**
Interim/Final dividend per share	**3.80p**	**6.40p**	**3.60p**

** EBITA after restructuring and one-off items is defined as operating profit before amortisation of intangible assets*

2012 comparatives have been restated to reflect the impact of IAS 19 (revised) Employee Benefits – details of the adjustments made are provided in the Appendix

Restructuring costs, net financing costs, tax

	H1 2013 £m	H2 2012 £m Restated	H1 2012 £m Restated
Revenue	486.1	474.5	533.0
EBITA before restructuring and one-off items *	58.3	52.4	68.5
Net restructuring and one-off items*	(6.7)	(11.9)	(1.3)
EBITA after restructuring and one-off items *	51.6	40.5	67.2
Amortisation of intangible assets	(4.0)	(4.2)	(4.1)
Operating profit	47.6	36.3	63.1
Net financing costs	(11.9)	(10.9)	(11.8)
Profit before tax	35.7	25.4	51.3
Tax	(10.2)	(6.3)	(15.3)
Profit after tax	25.5	19.1	36.0
Discontinued operations	0.0	0.0	21.0
Profit for the period	25.5	19.1	57.0
Non-controlling interests	(1.5)	(1.1)	(2.2)
Profit attributable to owners of the parent	24.0	18.0	54.8

** Restructuring and one-off items include the costs of restructuring activity, profit/(loss) on disposal of property and other one-off items.*

- Restructuring costs mainly from implementation of “One Morgan” organisational streamlining
- Net financing costs include IAS19 (revised) charge of £3.3 million
- Effective tax rate of 28.5% (H1 2012: 29.8%)

2012 comparatives have been restated to reflect the impact of IAS 19 (revised) Employee Benefits – details of the adjustments made are provided in the Appendix

Cash generation in line with H1 2012

	H1 2013 £m	H2 2012 £m Restated	H1 2012 £m Restated
Cash from trading	73.8	67.8	84.1
Change in working capital	(11.5)	18.2	(30.8)
Change in provisions	(6.6)	(9.1)	(3.4)
Cash flow from operations	**55.7**	**76.9**	**49.9**
Net capital expenditure	(13.8)	(14.7)	(12.0)
Net interest paid	(8.5)	(8.3)	(10.2)
Tax paid on ordinary activities	(11.9)	(11.9)	(14.9)
Restructuring costs and other one-off items	(8.3)	(3.1)	(2.8)
Free cash flow before acquisitions and dividends	**13.2**	**38.9**	**10.0**
Dividends paid	(15.3)	(11.3)	(4.8)
Cash flows from other investing and financing	(3.5)	(2.7)	(12.5)
Exchange movement	(17.2)	4.3	0.7
Opening net debt	(192.8)	(222.0)	(215.4)
Closing net debt	**(215.6)**	**(192.8)**	**(222.0)**

** Cash from trading is EBITA before restructuring and one-off items adjusted for depreciation and loss/profit on sale of plant and machinery*

- 3WC/Sales % of 23.4%, marginally higher than the 22.7% at H1 2012
- Capex at 0.9x depreciation in H1; expect c.£40 million for full year
- Dividend reflects the acceleration of the 2012 Year Dividend
- Large exchange movement due mainly to strengthening of US$
- Net Debt:EBITDA ratio at 1.5x

Summary

- Improving margins to 12.0%
- Good cash flow generation in H1
- Dividend increased 5.6%

Operational results and “One Morgan” update

Mark Robertshaw

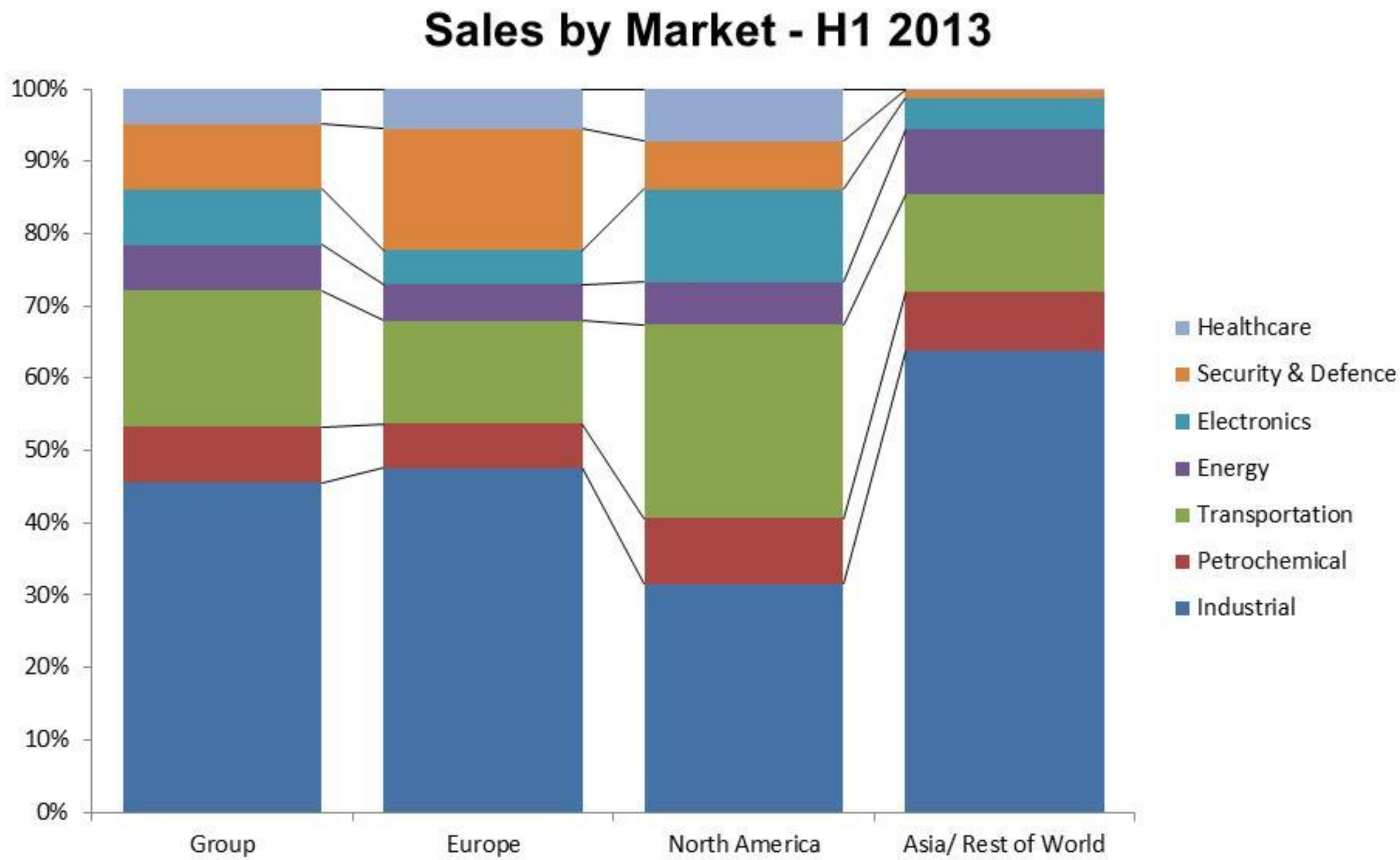
Group margins up in H1 2013 versus H2 2012, driven by improving performance in European businesses

£m	Revenue			EBITA			Profit Margins %		
	H1 2013	H2 2012	H1 2012	H1 2013	H2 2012	H1 2012	H1 2013	H2 2012	H1 2012
Europe	180.4	164.6	197.1	20.2	13.1	24.4	**11.2%**	**8.0%**	**12.4%**
North America	183.9	179.2	197.1	27.3	27.5	28.2	**14.8%**	**15.3%**	**14.3%**
Asia/Rest of World	121.8	130.7	138.8	13.1	14.4	18.4	**10.8%**	**11.0%**	**13.3%**
Unallocated Costs *				**(2.3)**	**(2.6)**	**(2.5)**	-	-	-
EBITA pre one-off items **	***486.1***	***474.5***	***533.0***	***58.3***	***52.4***	***68.5***	***12.0%***	***11.0%***	***12.9%***
One-off items **				**(6.7)**	**(11.9)**	**(1.3)**			
EBITA post one-off items **				***51.6***	***40.5***	***67.2***	***10.6%***	***8.5%***	***12.6%***

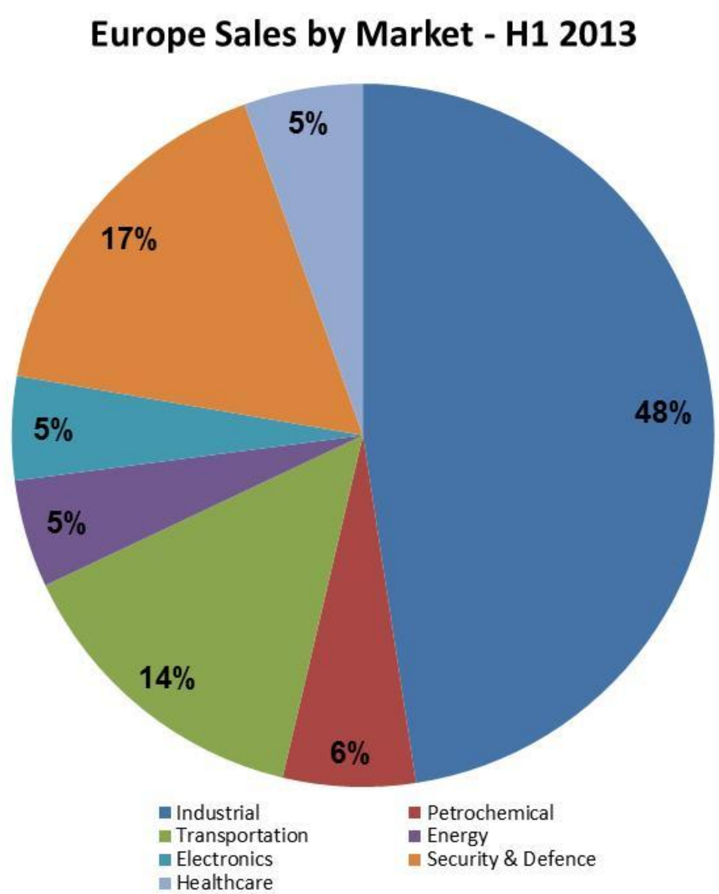
* Includes plc costs (e.g. Report & Accounts, AGM, Non-Executives) and Group management costs (e.g. corporate head office rent, utilities, staff, etc.)

** One-off items include the costs of restructuring activity, gain on disposal of property and other one-off items

Different end-market mix across regions drives differences in strategic and operational emphasis



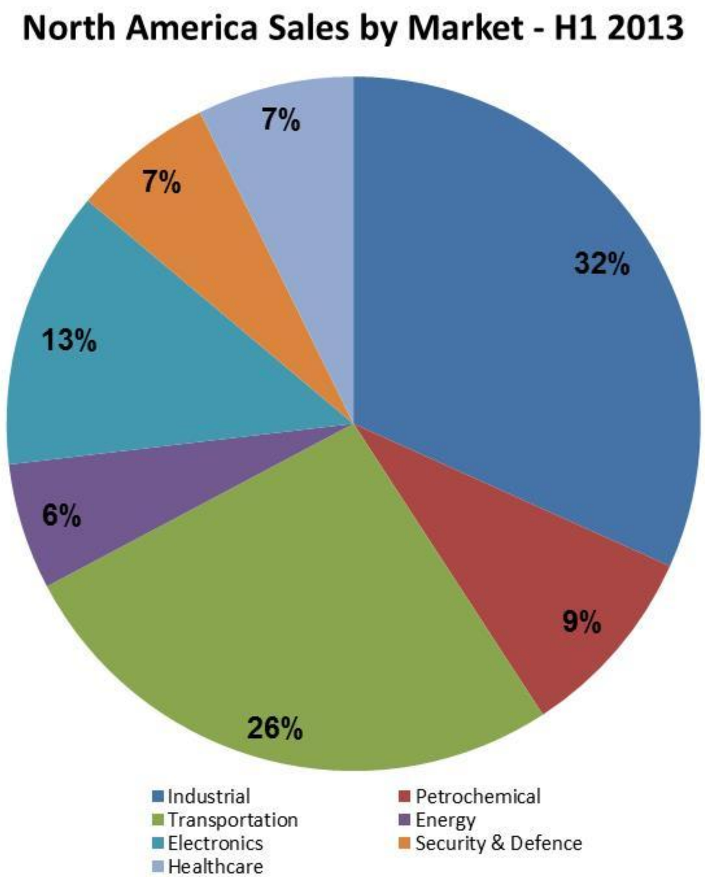
Europe – good sales growth and a 320bps increase in margin



- At constant currency, sales increased by 5.6% compared with H2 2012 with encouraging growth in electrical, seals and bearings, ceramic cores for aerospace and IGT and an improvement in Composites and Defence Systems (formerly NPA)

- EBITA margins increased by 320bps to 11.2% compared with 8.0% in H2 2012 due to the volume increase, particularly in the targeted niche markets, and due to the benefits from the move of manufacturing operations from Netherlands to Hungary and further headcount reductions, principally in the electrical business

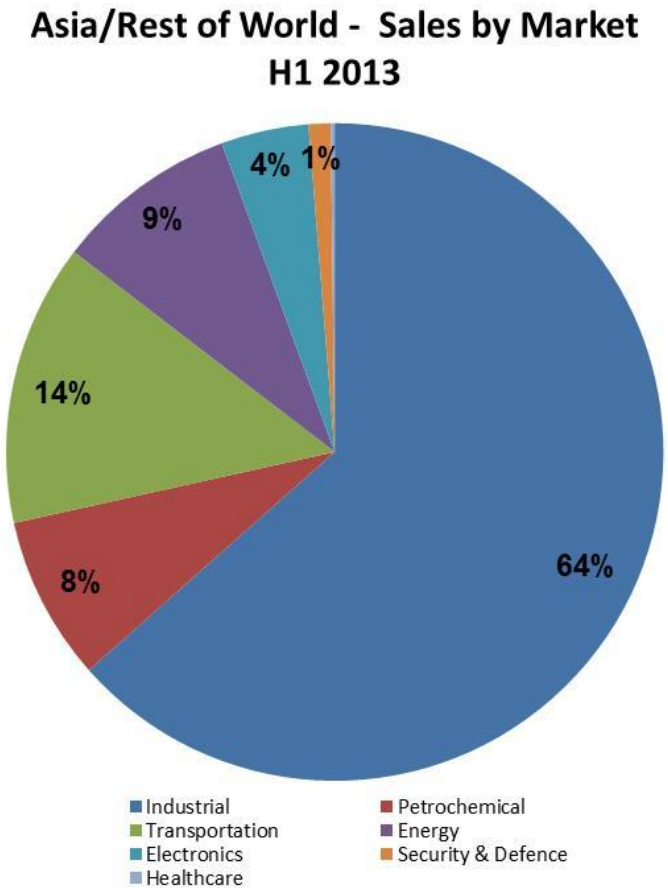
North America – stable revenue and mid-teen margins maintained



- At constant currency, revenue in line with H2 2012. Increases in sales to medical and an improvement in the general industrial market been offset by delays in larger CPI projects and a reduction in semicon and HDD sales

- EBITA margins maintained in the mid-teens %. As 2013 unfolds, region will progressively see the benefits from the removal of overheads under the “One Morgan” organisational change

Asia/Rest of World – no recovery in industrial markets; focus on operational effectiveness and positioning for future



- At constant currency, sales were 6.4% below H2 2012. Delays to large petrochemical projects and the continued softness in the wider Chinese and Indian industrial markets have impacted the region. First successes of "high technology" sales in to medical and aerospace markets

- EBITA margins have been impacted by the reduced sales volumes but the drop through has been mitigated by headcount and footprint rationalisations (e.g. closure of Australian fibre manufacturing site)

Self help initiatives – significant focus in 2013, driving increased profits and margins

- Site rationalisation
  - Closure of Netherlands facility completed in Q2 and manufacturing relocated to Hungary
  - Closure of fibre operations in Australia, now sourcing from lower cost Asian plants

- Operating costs
  - Headcount reductions and flexible working arrangements in a number of locations in response to site-specific demand
  - Streamlining of regional management organisations under "One Morgan" structure
  - Ongoing operational efficiencies through back office and functional consolidations

“One Morgan”: Driving profitable growth

- Maximise full breadth and depth of advanced materials capabilities for our customers
- Fully leverage our geographic and end-market positions
- Accelerate positive mix change across the regions into our target markets

Delivery of “One Morgan” firmly on track

- New organisational structure and unified management teams in place
- Flatter structure and leaner organisation facilitating better communication, quicker decision making and actions
- First order cost benefits of management delayering delivering benefits now; second order regional initiatives coming through progressively in 2013 and beyond e.g. back office and footprint rationalisations
- Good progress on revenue growth initiatives
  - Identification of additional synergy selling opportunities
  - New global key account management approach being embedded
- Significant Group reorganisation delivered without any loss of focus on operational performance delivery

Continuing to invest for long-term profitable growth

- Superwool® roll out progressing well – latest phase of fibre line conversions in USA, China, Korea, India and Brazil

- 2 new greenfield sites under development: Kizad, UAE (fibre) and Dalian, China (high-temperature insulating castables)

- Continued significant investment in R&D and application engineering resource, particularly in Asia and in our key target end-markets, such as aerospace and medical – spend of c.£10 million, 2.1% of sales in H1 2013

Unifying characteristics of an integrated One Morgan

- Leading edge material science
- Sophisticated application engineering
- Solving complex challenges in technically demanding applications
- Providing real value-add to our customers, enabling their products and processes to perform more efficiently, more reliably and for longer

Driving differentiated, market-leading positions

Outlook

Mark Robertshaw

Outlook

- Market environment expected to be broadly similar to H1
- Book-to-bill ratio 2013 year to date marginally positive
- Focus remains on self-help actions with “One Morgan” benefits coming through progressively as the year goes on
- £10 million of profit improvement initiatives in full year (1/3rd in H1, 2/3rd in H2) relative to H2 2012 driving continued margin progression in the second half of 2013 and beyond

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Appendix

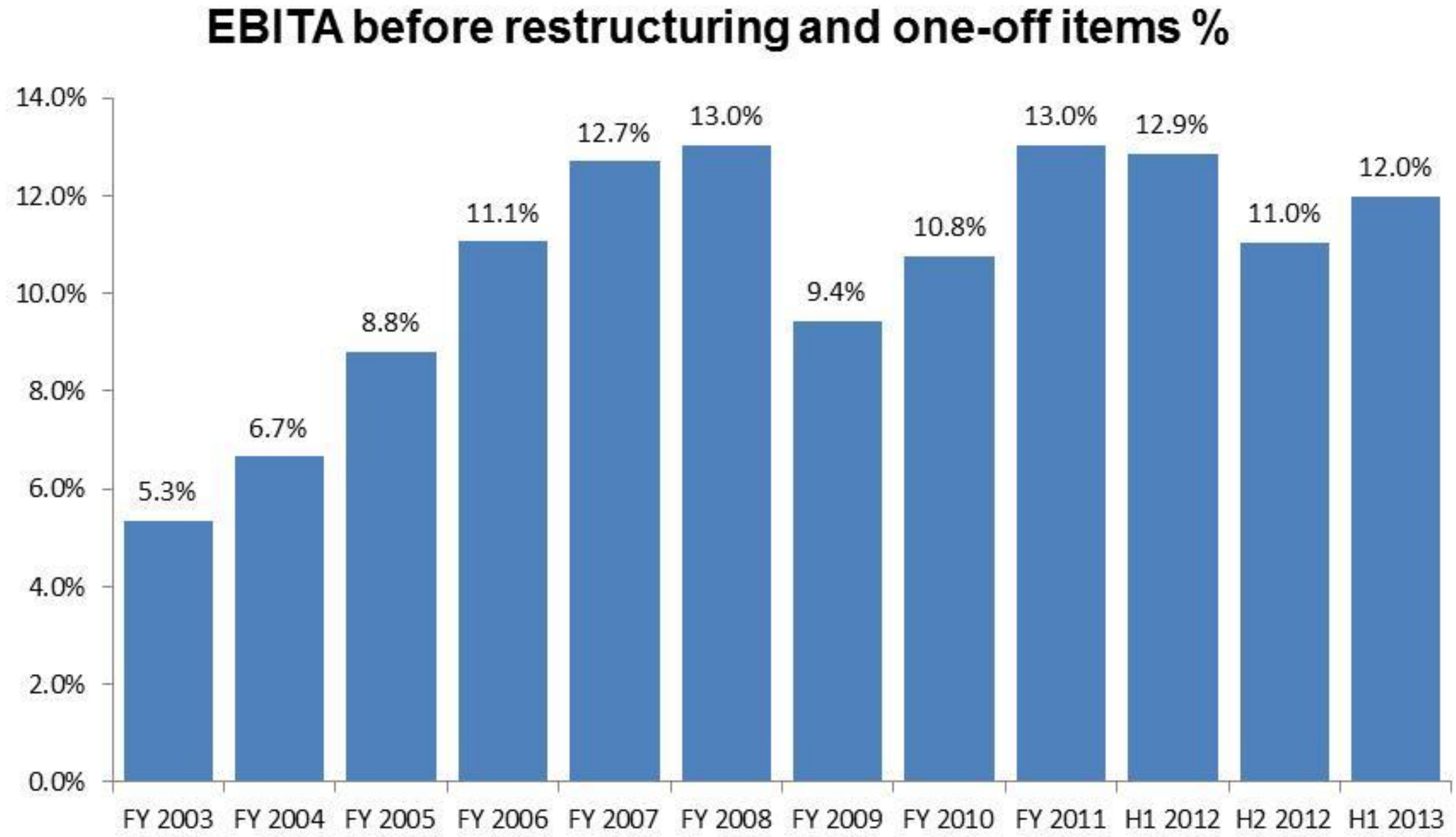
Group margin improved versus H2 2012, driven by AM&T and Composite and Defence Systems

£m	Revenue			EBITA			Profit Margins %		
	H1 2013	H2 2012	H1 2012	H1 2013	H2 2012	H1 2012	H1 2013	H2 2012	H1 2012
Technical Ceramics	135.5	127.9	145.4	21.0	18.8	23.3	**15.5%**	**14.7%**	**16.0%**
Thermal Ceramics	178.6	188.3	198.9	21.7	24.4	27.3	**12.2%**	**13.0%**	**13.7%**
Ceramics	**314.1**	**316.2**	**344.3**	**42.7**	**43.2**	**50.6**	**13.6%**	**13.7%**	**14.7%**
AM&T	122.4	112.6	130.8	12.7	8.4	12.2	**10.4%**	**7.5%**	**9.3%**
Composite and Defence Systems	27.7	23.4	34.4	2.2	(0.4)	4.0	**7.9%**	**(1.7)%**	**11.6%**
Molten Metal Systems	21.9	22.3	23.5	3.0	3.8	4.2	**13.7%**	**17.0%**	**17.9%**
Engineered Materials	**172.0**	**158.3**	**188.7**	**17.9**	**11.8**	**20.4**	**10.4%**	**7.5%**	**10.8%**
Unallocated Costs *				**(2.3)**	**(2.6)**	**(2.5)**	**-**	**-**	**-**
EBITA pre one-off items **	***486.1***	***474.5***	***533.0***	***58.3***	***52.4***	***68.5***	***12.0%***	***11.0%***	***12.9%***
One-off items **				**(6.7)**	**(11.9)**	**(1.3)**			
EBITA post one-off items **				***51.6***	***40.5***	***67.2***	***10.6%***	***8.5%***	***12.6%***

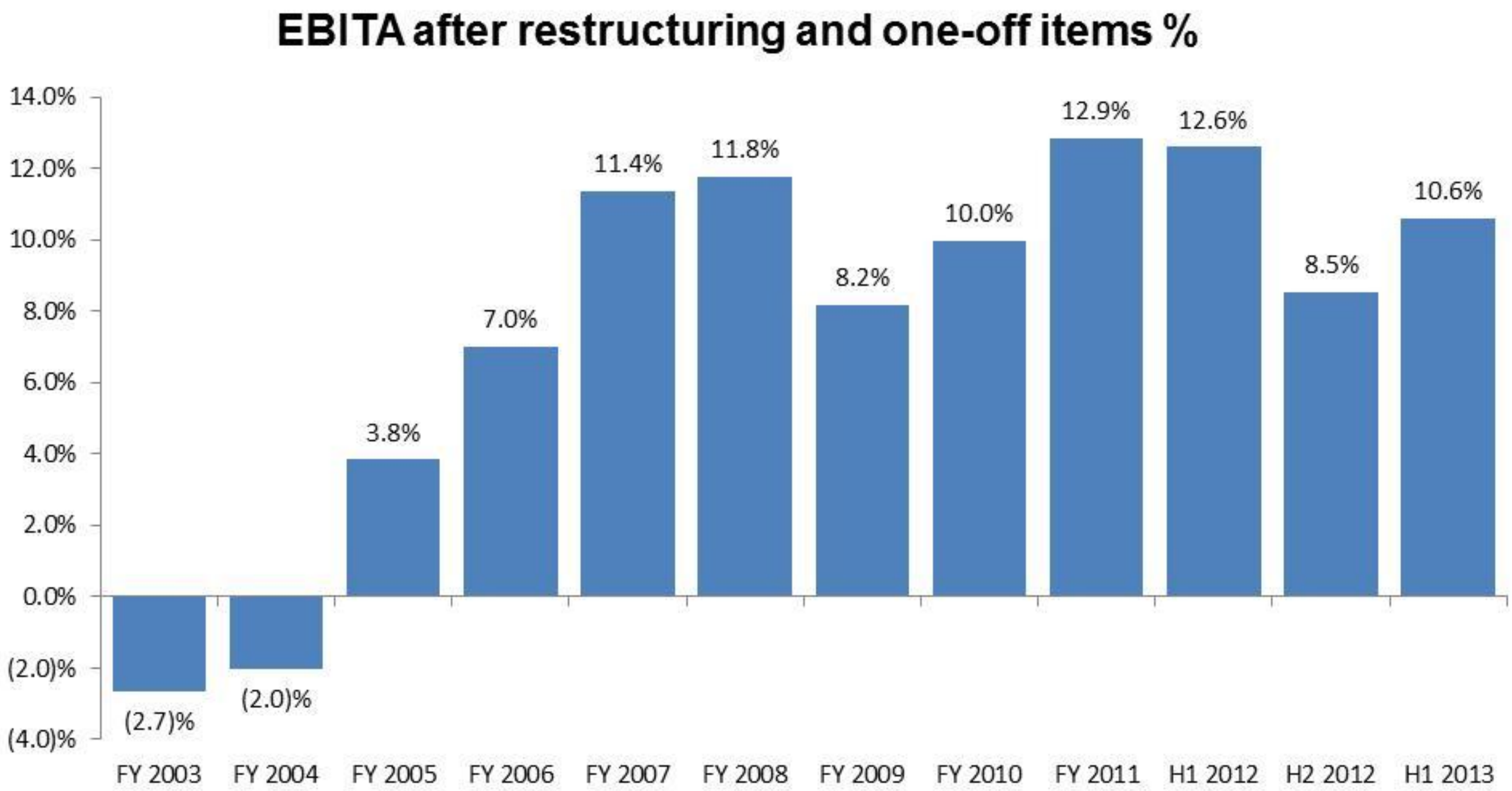
* Includes plc costs (e.g. Report & Accounts, AGM, Non-Executives) and Group management costs (e.g. corporate head office rent, utilities, staff, etc.)

** One-off items include the costs of restructuring activity, gain on disposal of property and other one-off items

EBITA margins before restructuring and one-off items

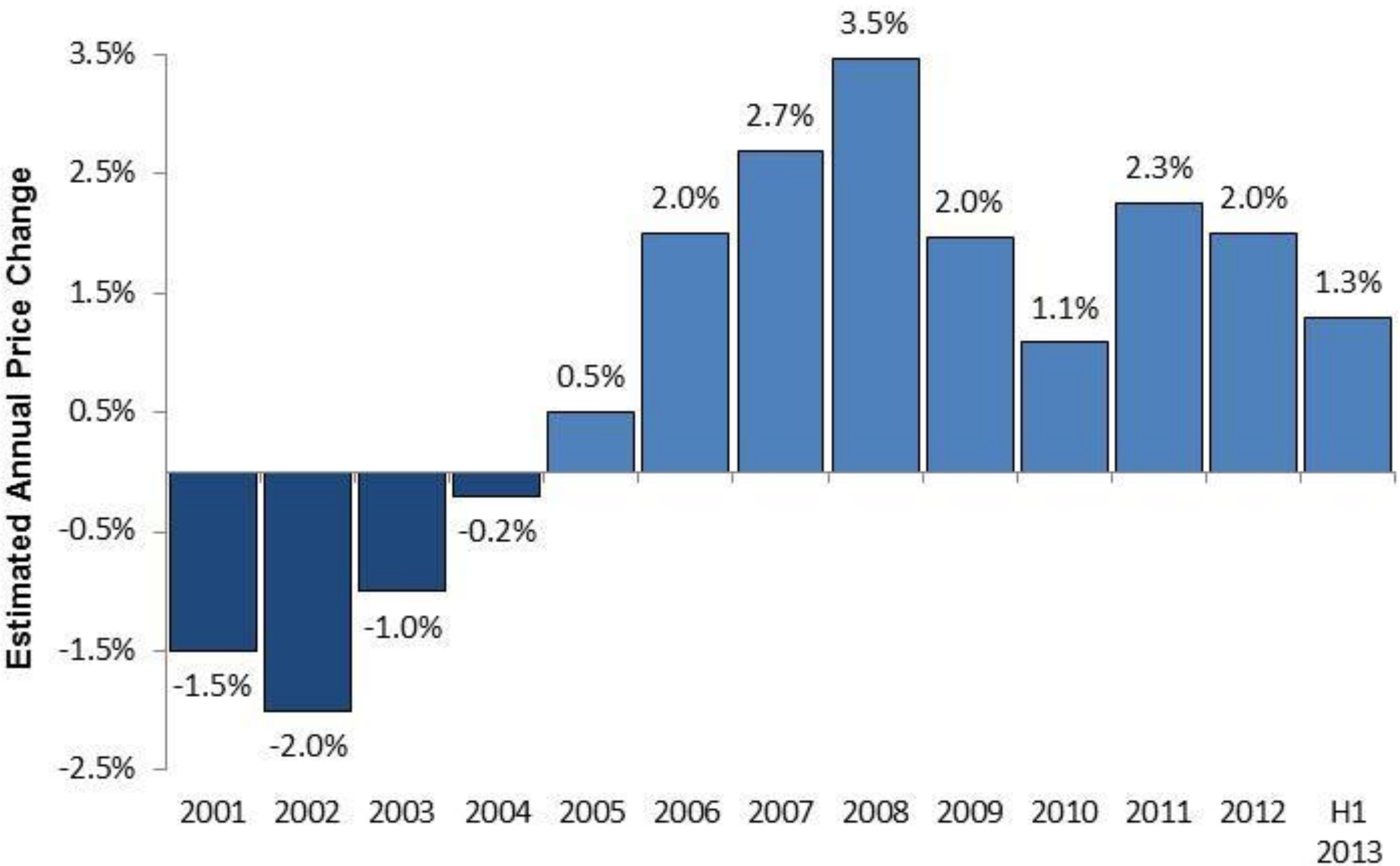


EBITA margins after restructuring and one-off items



Morgan Advanced Materials

Market positioning and differentiation enables continued positive pricing



Morgan Advanced Materials

Pensions IAS19 Revised – Restatement of 2012 comparatives

£ m	H1 2012 Previously Reported	H1 2012 IAS 19 Revised	H1 2012 Restated	H2 2012 Previously Reported	H2 2012 IAS 19 Revised	H2 2012 Restated	FY 2012 Previously Reported	FY 2012 IAS 19 Revised	FY 2012 Restated
Revenue	533.0		533.0	474.5		474.5	1,007.5		1,007.5
EBITA before restructuring and one-off items	69.0	(0.5)	68.5	53.0	(0.6)	52.4	122.0	(1.1)	120.9
Net restructuring and one-off items	(1.3)		(1.3)	(11.9)		(11.9)	(13.2)		(13.2)
EBITA after restructuring and one-off items	67.7		67.2	41.1		40.5	108.8		107.7
Amortisation of intangible assets	(4.1)		(4.1)	(4.2)		(4.2)	(8.3)		(8.3)
Operating profit	63.6		63.1	36.9		36.3	100.5		99.4
Net financing costs	(9.9)	(1.9)	(11.8)	(9.2)	(1.7)	(10.9)	(19.1)	(3.6)	(22.7)
Profit before tax	53.7		51.3	27.7		25.4	81.4		76.7
Tax	(15.6)	0.3	(15.3)	(6.5)	0.2	(6.3)	(22.1)	0.5	(21.6)
Profit after tax	38.1		36.0	21.2		19.1	59.3		55.1
Discontinued operations	21.0		21.0	0.0		0.0	21.0		21.0
Profit for the period	59.1		57.0	21.2		19.1	80.3		76.1
Non-controlling interests	(2.2)		(2.2)	(1.1)		(1.1)	(3.3)		(3.3)
Profit attributable to owners of the parent	56.9		54.8	20.1		18.0	77.0		72.8

Reduced Operating ROCE due mainly to LTM EBITA

All £ million At reported rates	2013 Half Year	2012 Year End Restated	2012 Half Year Restated
LTM EBITA	92.0	107.7	136.3
Change -v- 2012 Year End	-14.5%		
Operating Capital			
Land & Building - NBV	105.4	98.9	98.7
Plant & Equipment - NBV	146.7	146.6	153.4
Third Party Working Capital	181.5	164.4	193.5
	433.6	409.9	445.6
Change -v- 2012 Year End	5.8%		
Return on Operating Capital Employed	**21.2%**	**26.3%**	**30.6%**

Net financing costs

	H1 2013 £m	H2 2012 £m Restated	H1 2012 £m Restated
Bank interest charge	9.2	8.8	9.7
Bank interest income	(0.6)	(0.5)	(1.1)
Interest expense on unwinding of discount on deferred consideration	0.0	0.1	0.1
IAS19 Revised charge	3.3	2.5	3.1
	11.9	10.9	11.8

Underlying EPS

	H1 2013 £m	H2 2012 Restated £m	H1 2012 Restated £m
Basic earnings from continuing operations	24.0	18.0	33.8
Amortisation	4.0	4.2	4.1
Underlying earnings	28.0	22.2	37.9
Weighted average number of shares in the period	281.0m	280.0m	275.5m
Underlying earnings per share	10.0p	7.9p	13.8p

Morgan Advanced Materials

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